



January, 2017

TO: School Administrators and Business Managers

FROM: Paul Taylor
Financial Specialist

RE: Application for FY2018 Indirect Cost Rate

Application forms to request an indirect cost rate for fiscal year 2018 are posted on the OPI website. This form is **optional**, but is required if your district plans to charge indirect costs to federal and state grant awards using an indirect cost rate. Application for an indirect cost rate **does not** increase the amount of your grant awards.

The "preliminary rate" shown on Schedule A was calculated using expenditures reported on your FY2016 Trustees' Financial Summary (TFS). You may either request to use this preliminary rate, or submit an adjusted rate. For more information, see Indirect Cost Rate Instructions.

Unless otherwise restricted by the terms of a grant, the indirect cost rate approved by the OPI will apply to all of your federal and state grants, regardless of whether the grant is administered by the OPI, another state agency, or received directly from a federal agency.

Reminders for your FY2018 Application Process:

Audits and Insurance Costs

According to the federal Single Audit Act, auditing costs may be reclassified as indirect only if the district is spending more than \$750,000 in federal funds. USDE regulations allow all employee benefits related to indirect functions, property and liability insurance to be considered as indirect costs. This is adjusted from the previous \$500,000 in federal funds.

School Foods Fund Expenditures to be Excluded Function 31XX expenditures that are not expended under salary or benefits (objects 1XX or 2XX) will be excluded. On the schedule A, they will be moved from *Direct and Unallowable* (B) and will be listed under *Other* (F) and are not subject to reclassification.

Business manager associated costs to be direct and unallowable for school systems with enrollments greater than 2,600

School Systems with fall enrollment greater than 2,600 as determined by the student count for ANB calculation in the fiscal year of the application for indirect cost rate will be required to claim costs associated with the business manager salary and benefits to the

base of the calculation for determining indirect costs. These cost are not to be included as indirect but rather direct and unallowable.

Independent school districts will apply and be approved for indirect cost rates as a separate legal entities (LE). The Schedule A for school districts with a shared school system code will be calculated individually at the LE level however, applications will be approved on a school system basis. Reclassified data will need to be approved separately for elementary and high school and then averaged to determine the adjusted rate as a school system. Both elementary and high school will be granted the same indirect cost rate.

Carry forward adjustments are no longer applicable. Final rates are determined by a rolling five year average with the averaged value, discounted by 5%.

Please include a copy of your Schedule A with your Certification when applying for an Indirect Cost Rate.

For compatibility with the e-grants system the closing date for applying for an Indirect Cost Rate is **April 30**.

The U.S. Department of Education (USDE) agreed to allow resource transfers and sub-contracts in excess of \$25,000 with educational vendors to be considered excluded costs rather than direct costs. This will lower the base or denominator and will increase the indirect cost rate.

Excluded Costs

Other cost items also classified by Uniform Grants Guidance as unallowable are excluded from the computation of the indirect cost rate. Excluded costs include capital outlay, debt service and interest, and other expenditures, such as contributions and donations, bad debts, contingencies, entertainment, fines and penalties, judgments, fund raising, investment counseling for non-federal funds, losses on property, lobbying, operating transfers, residual equity transfers, resource transfers/sub-grants to other districts or cooperatives, and sub-contract amounts in excess of \$25,000 with educational vendors.

Cost of Superintendent's Office for Districts with less than 2,600 students-eliminated

The USDE requested this exception be revised to require the superintendent to keep timesheets on a monthly basis as discussed in Uniform Grants Guidance. The time sheet would track time spent on each federal grant and non-federal activities including identification of time spent on direct and indirect activities to determine and document how much of the superintendent's time was spent on federal indirect cost activities. The USDE also wanted the costs allocated to indirect costs limited to the superintendent salary only, rather than the entire cost of the superintendent's office

which includes the secretary or executive assistant. As a result, this exception has been eliminated.

Termination/Severance Pay

Uniform Grants Guidance requires that termination and severance pay be paid as general administrative costs and not as a direct cost to any grant. Note this change is not limited to school district personnel paid from federal funds. Any termination and severance pay should be reclassified from direct costs to indirect costs. Please see the instructions to reclassify these expenditures.

Grant Writer Costs

Uniform Grants Guidance requires that grant writing costs charged directly to a grant be approved IN ADVANCE by the granting agency. Otherwise, grant writing costs must be included in the indirect cost calculation. This means a grant writer may be paid from the General Fund and then shown as an indirect cost when the indirect cost rate is calculated. As indirect costs are recovered during the grant period, a grant writer may be paid from these recoveries. Grant writers may not receive a percentage fee or flat fee DIRECTLY from a grant (i.e. 5% of the grant award) unless prior approval has been given by the granting agency.

Building Maintenance Costs

A small portion of building operation and maintenance cost related to indirect activities can be classified as an indirect cost. School districts must conduct a study or other measured basis such as square feet occupied by indirect functions as it relates to the total square feet of space used by the school district.

Rates approved in the middle of a grant period

An Indirect Cost Rate approved in the middle of a grant period may only be applied to expenditures made after the approval date of the rate. An indirect cost rate may not be applied retroactively.

By April 30, 2017, please send the Certification signed by the school board chairperson or superintendent and a copy of Schedule A to our office. Include any worksheets, schedules, and other supporting documentation, which might expedite the approval of your proposal. The completed application should be sent to:

School Finance Division
Office of Public Instruction
P.O. Box 202501
Helena, MT 59620-2501

If you have any questions or need additional information, please call Mari Haefka at (406) 444-1960 or mhaefka@mt.gov, Steve Hamel at (406) 444-0783 or shamel@mt.gov, Paul Taylor at (406) 444-1257 or ptaylor2@mt.gov. Fax (406) 444-0509.